Committee on Ways and Means

ECONOMY and JOBS UPDATE

July 2004

The U.S. Economy is Surging;

Tax Cuts Are the Reason

TAX CUTS WORK

- **Republicans enacted tax cuts for business investment in 2002 and expanded them in 2003. Business investment has surged more than 12 percent since June 2003. That's nearly triple the pace of the overall economy.**
- **Small business received a tax cut first in 2001 and again in 2003. Proprietor income is up 11 percent in the last 12 months and more than 18 percent since January 2001.**
- **The tax cuts in 2001 and 2003 reduced tax burdens for workers, leading directly to bigger paychecks. As a result, consumer spending has jumped up 11 percent since January 2001.**
- **Despite lower tax rates, federal tax receipts are above last year's levels due to the strong economy.**
- **JOBS: Taken together, GOP tax policy in 2001, 2002 and 2003 have returned the economy to robust job growth with 1.3 million new jobs created so far this year.**

POSTIVE ECONOMIC OUTLOOK

- **In the last three quarters, the economy has expanded at nearly the fastest pace in 20 years.**
- **The pace of job creation this year is the fastest in four years.**
- **The consensus estimate among economists is for economic growth of 5.1 percent for the four quarters ending June 30, 2004; the fastest 4 quarters of real growth in 20 years!**
- **Growth will remain strong as long as tax relief remains in place. Lower marginal tax rates have been shown to lead to higher incomes, more education, more innovation and more economic growth.**

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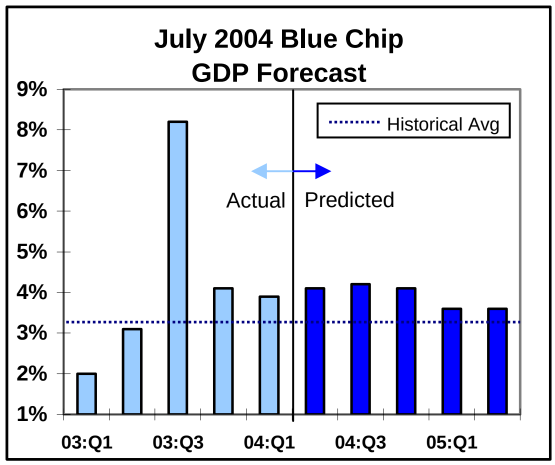
The U.S. Economy

Overview. Following the enactment of pro-growth tax policies in 2001, 2002, and 2003, the U.S. economy is booming, consumer confidence is rising, and market fundamentals presaging strong growth for the future. Since the summer of 2003, the Gross Domestic Product (GDP) has expanded at the fastest pace in nearly twenty years. The inflation-adjusted after-tax income earned by Americans increased at a 4.9 percent annual rate in the first quarter of 2004, faster than its annual pace since 1999. Inflation has remained low and, despite a recent uptick, is still well within the range that economists consider stable. Job growth is up and unemployment remains down.

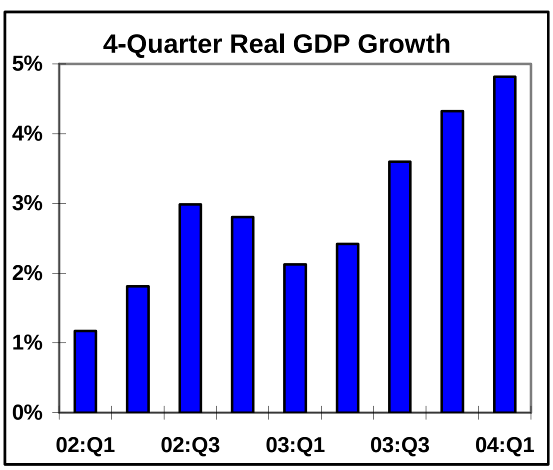
TAX IMPACT: Critical and timely tax relief in the last three years has allowed workers to keep more of their income and entrepreneurs to receive greater rewards for their risks. Corporate dividends to shareholders are higher due to the tax cuts. Small business income is rising due to lower tax burdens on these companies and investment is surging due to investment tax incentives.

Outlook. The consensus forecast among private economists is for strong economic growth to continue through 2004 and remain above the long-term trend through 2005. Inflation is expected to remain low, and growth in the industrial production sector is expected to outpace overall economic growth.

TAX IMPACT: Keeping tax rate cuts in place are necessary to keep strong economic growth and higher wage growth in place.



Source: Blue Chip Economic Indicators



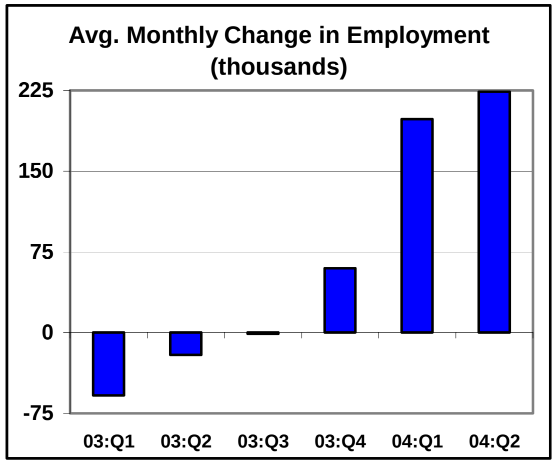
Source: Bureau of Economic Analysis

Gross Domestic Product (GDP). GDP is a measure of all goods and services produced in the U.S. Its growth rate is the broadest indicator of the health of the economy and has been expanding since the third quarter of 2001. Real growth since the end of the first quarter of 2003 was 4.8 percent.

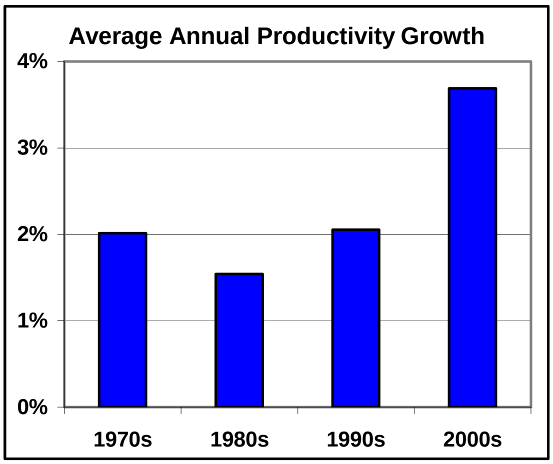
TAX IMPACT: Lower marginal tax rates enacted in 2001 and 2003 have improved the incentives to work and invest, thereby increasing output. Lower tax liabilities and tax rebates lead directly to stronger demand and more business activity.

Employment. The Department of Labor announced recently that one million jobs were created in the last four months and 1.3 million jobs have been created in 2004 thus far.

In addition, unemployment rates have been falling dramatically: 85 percent of metropolitan areas have reported declines in unemployment compared to last year and the overall unemployment rate has declined from 6.3 percent to 5.6 percent. The four-week average of initial jobless claims nationwide has fallen to near the lowest point in three and a half years.



Source: Bureau of Labor Statistics



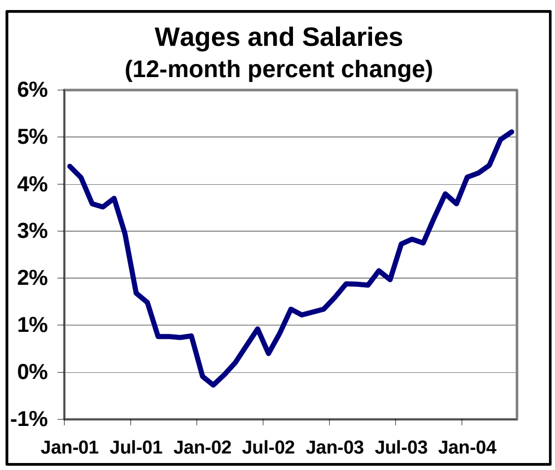
Source: Bureau of Labor Statistics

Productivity. Productivity has increased at an annual rate of 4.5 percent during the past 12 quarters, the fastest three-year growth rate in 40 years. Although this blistering rate is unsustainable in the long run, it is possible that relatively fast productivity gains will continue for the near term. Faster productivity growth leads directly to higher standards of living. It also enables higher growth with lower levels of unemployment and lower interest rates.

TAX IMPACT: *By reducing the tax on small businesses, entrepreneurship and innovation, the tax cuts will spur faster productivity and innovation.*

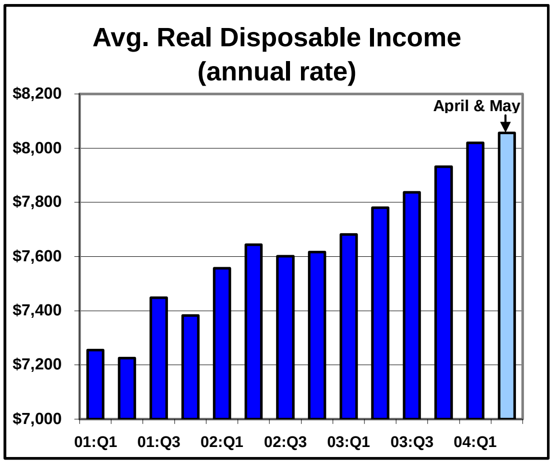
Wages and Salaries. Growth in wages and salaries has been rising steadily since the first quarter of 2002. Labor trends tend to lag behind other economic indicators like GDP growth.

TAX IMPACT: *Reducing the taxes on work has not only increased total employment but has boosted paychecks as well.*

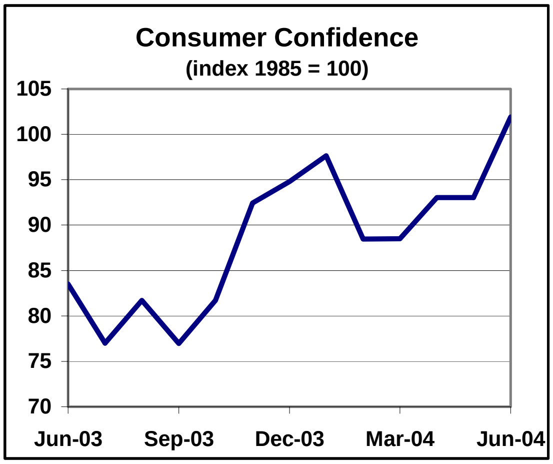


Source: Bureau of Economic Analysis

Personal Income. Personal income, a broader measure than wages and salaries, rose at a 7.4 percent annualized rate from April to May. As a result of the tax cuts, low inflation, and the strong economy, real after-tax incomes are rising rapidly.



Source: Bureau of Economic Analysis

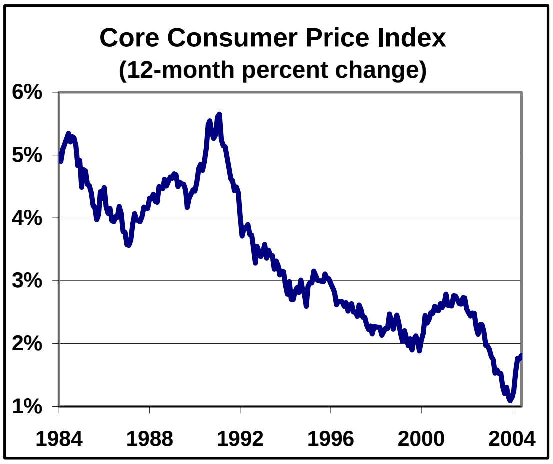


Source: The Conference Board

Consumer Confidence. The Conference Board reported a large leap in consumer confidence in June. The index of consumer's attitudes about the economy climbed to its highest point in nearly two years.

TAX IMPACT: *As worker paychecks grow – due to the tax cuts and growing economy – family finances improve and consumer confidence grows.*

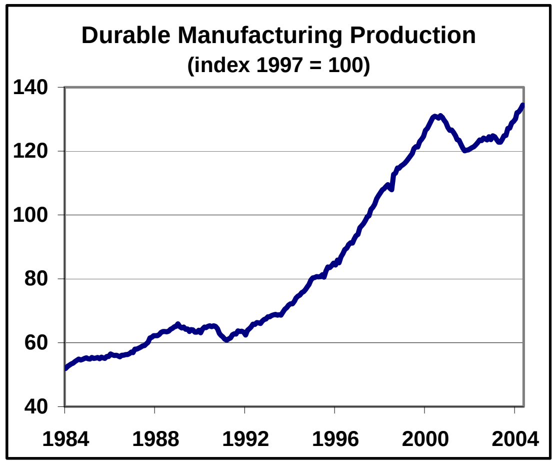
Inflation. Inflation has accelerated from last year, but still remains well within the range that economists consider stable. Prices on a number of important commodities have increased. Steel, copper, gold, iron and oil are all relatively expensive now, due to strong demand from China. However, Federal Reserve Chairman Greenspan noted in May 2004 that although inflation has increased, "long-term inflation expectations appear to have remained well contained."



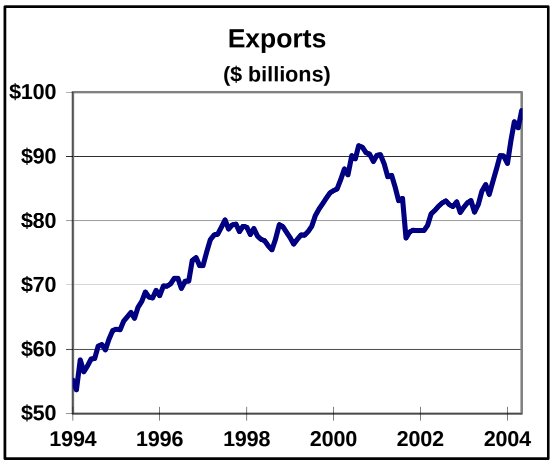
Source: Bureau of Labor Statistics

Manufacturing Sector. Output in the U.S. manufacturing sector has been growing robustly for roughly a year. The Institute for Supply Management (ISM) Index of manufacturing activity was 61.1 in June. Any reading above 50 indicates expansion. The ISM has been above 60 for eight consecutive months, the longest period of such strong expansion in more than 20 years. Durable manufacturing production, the hardest hit segment of the sector, reached a new record level of output in February 2004.

TAX IMPACT: The manufacturing sector suffered a considerable downturn starting in the middle of 2000. Tax relief in 2001, 2002 and 2003 helped turn around the manufacturing sector.



Source: Federal Reserve Board



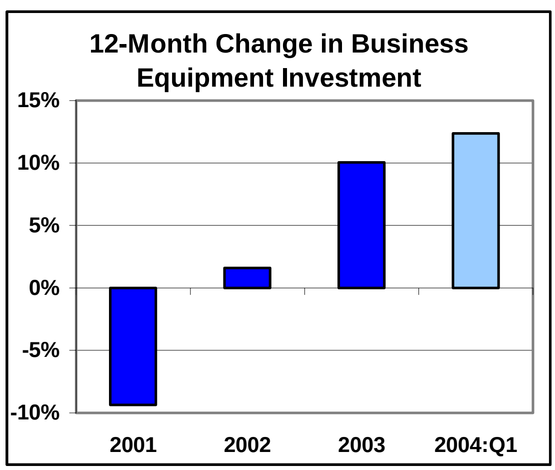
Source: Census Bureau

Exports. Exports have increased 15.5 percent in the last year to a record level. The economic strengthening of our overseas trading partners has helped fuel the increase in exports.

TAX IMPACT: Lower taxes on investment and on small businesses have encouraged U.S. exporters to invest domestically in their businesses so to increase exports abroad.

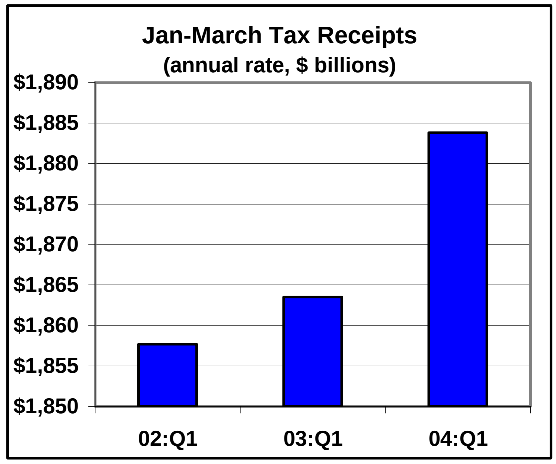
Investment. Business investment is a key for higher productivity, increased output per worker and higher wages. Investment in business equipment and software increased in the first quarter at an annualized rate of 9.2 percent and is up 12.4 percent from one year ago.

TAX IMPACT: Business investment has been stimulated by bonus depreciation provision and the 2003 reduction in capital gains and dividend tax rates. The recession of 2001 was lead by the bursting of an investment bubble in the late 1990s. Timely tax policy has fueled the rebound in investment.



Source: Bureau of Economic Analysis

Tax Receipts. Federal tax receipts have begun to improve noticeably, due to the economic stimulus provided by the recent tax cuts. Federal tax receipts for the first quarter of 2004 are larger than the first quarter receipts from 2002 or 2003, despite the lower tax rate.



Source: Bureau of Economic Analysis

TAX IMPACT: *Although not generally incorporated in the revenue estimates presented to Congress, economists know well that lower marginal tax rates will lead to increased economic activity and a subsequent growth in tax payments.*